

SPECIALISATION AND TRADE

Globalisation: Economic, social, technological, cultural and political changes that are increasing interactions and interdependencies between people, firms, and entire economies all across the globe.

Specialisation: The process by which individuals, firms, and countries increase productivity by focusing on producing goods that they have a comparative advantage in. (Specialisation by individuals is also called DIVISION OF LABOUR)

ADVANTAGES OF DIVISION OF LABOUR:

- ① Specialists can be employed: Some workers are better and more productive at something than others.
- ② Greater skill and productivity of workers: When workers perform specialized tasks repeatedly, their productivity in that task increases.
- ③ Less training required: Easier to teach workers to perform a specialized task / use machinery.
- ④ No time wasted: No moving around / No need to change tools (ASSEMBLY LINE)
- ⑤ Allows the use of specialist machinery.

DISADVANTAGES OF DIVISION OF LABOUR:

- ① Boredom and Monotony: Workers may get bored by performing the same task repeatedly
↳ leads to decreased incentive to work and deteriorating product quality.
- ② Decline in other skills: Workers may lose their other skills by using only a very particular set of skills everyday.
- ③ Interdependence: Each stage of production depends on the one before it → may cause production line to collapse if even one stage doesn't work.
- ④ Occupational Immobility: Workers may have difficulty in finding other jobs if they end up losing their other skills.

COMPARATIVE ADVANTAGE:

The advantage that a firm or country enjoys in producing a certain good when it has a lower opportunity cost for every unit of that good produced. FOR EXAMPLE:

Firm A gives up 10 cars to manufacture 1 truck

Firm B gives up 7 cars to manufacture 1 truck

Therefore, Firm B has a comparative advantage.

ADVANTAGES OF INTERNATIONAL SPECIALIZATION

- ① Higher levels of output: When a country specializes in producing a good that it has a comparative advantage in, its output increases and average cost decreases.
- ② Increased employment: Higher level of output results in more business opportunities and increased employment.
- ③ Standard of Living / Econ Growth ↑
↳ As a result of greater economic activity, output, and employment.
- ④ The country utilizes its factor endowments to the maximum: for the production of those goods in which it has a comparative advantage.
- ⑤ Higher output could increase export revenue: This would improve B.O.P surplus or reduce B.O.P deficit
Sa) May also result in higher quality products.
- ⑥ When countries specialize, they will have to import other raw materials from other countries which specialize in producing them: Thus, high quality raw materials could be imported at low prices → $COP \downarrow \rightarrow Output \uparrow$

DISADVANTAGES OF INTERNATIONAL SPECIALIZATION

- ① May result in structural unemployment: When countries focus on specific industries, other industries may decline, resulting in large-scale structural unemployment.
- ② Large scale cyclical unemployment may occur if demand for specific products falls: If global demand for a specialized product falls, the country producing it will suffer significant demand-deficient unemployment.
- ③ The country will have to rely on imports for raw materials: Rises in the prices of these imported raw materials may result in cost-push / imported inflation.
- ④ Risk of overexploitation of resources: If a country takes advantage of a factor endowment, it may end up depleting it completely.
- ⑤ Specialization makes the country more vulnerable to changing global demands / global economic conditions / volatile exchange rates.

Multinational Company (MNC):

A firm that has productive operations in countries other than the country of its origin.

ADVANTAGES OF MULTINATIONAL COMPANIES

TO MNC

- ① Expanding into diverse markets mitigates the losses in case of a change in demand
- ② MNC can take advantage of lenient govt. policies and cheap labour / FOP
- ③ Producing in foreign countries allows MNCs to bypass protectionist measures

To host country

- ① MNCs increase domestic production: GDP ↑, SOL ↑
- ② MNCs provide employment: SOL ↑
- ③ FDI (Foreign direct investment) comes into the country: BOP ↑
- ④ They provide more competition to local firms: results in higher quality products at lower prices

DISADVANTAGES OF MULTINATIONAL COMPANIES

TO MNC

- ① May grow too large and suffer the diseconomies of scale
- ② May be forced to accept the economic requirements of the host country: these requirements may not always be according to the MNC's best interests

To host country

- ① They may force local competitors out of business
- ② The earned profit would be sent back to the country of origin: this would result in money leaving the host economy.
- ③ MNCs may exploit cheap labour / FOP in the host country

Free Trade: The movement of tangible goods and intangible services across international borders without any restrictions.

Protectionism: The protection of industries in a domestic market via the restriction of imports coming into the country.

ARGUMENTS FOR FREE TRADE AND AGAINST PROTECTIONISM

- ① Free trade results in the spread of new ideas and technology
- ② Free trade allows countries to benefit from specialization: (insert advantages of specialization)

- ③ Free trade will result in the abolishment of inefficient industries + more competition
- ④ International trade increases consumer choice
- ⑤ International trade promotes economic interdependency and reduces the possibility of conflict
- ⑥ Countries may retaliate with protectionist measures of their own
- ⑦ Tariffs may cause imported inflation
- ⑧ Protectionism may restrict imports of high quality products
- ⑨ Protectionism limits world output

ARGUMENTS FOR PROTECTIONISM AND AGAINST FREE TRADE

- ① Protectionism may help correct a country's Balance of Payments deficit
- ② Key, but inefficient domestic industries may be needed to be protected from intense international competition.
- ③ Sunset industries may be protected to allow for their gradual decline and to prevent structural unemployment
- ④ Sunrise industries may be protected to give them enough time to grow into large, internationally competitive industries
- ⑤ May be used to prevent "dumping."

When firms sell products below cost price (predatory pricing)

